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1953 FINANCIAL POLICY AND PROCEDURE IN RURAL CHINA

Summary: This report gives information, up to March 1953, on Chinese Communist policy and procedure in handling rural loans, savings and insurance, and on types of rural credit organizations. Most rural loans are said to be of a stopgap nature because of the limited financial reserves of state banks. The cadres engaged in financial activity can negotiate loans for peasants in approximately 20,000 villages. Loans, at present granted primarily by agricultural cooperatives acting as agents for the banks, more and more are to be directly negotiated by the state banks. At present, there are approximately 8,000 credit cooperative organizations negotiating loans and writing insurance in rural China.7

I. TRENDS

A. Loans

The current policy of the state bank is to grant loans to all organizations engaged in the production and circulation of agricultural commodities. Although loans are geared to the individualistic peasant economy, the trend is toward collectivizing the economy by, among other methods, floating loans to mutual-aid teams and production cooperatives. Generally, a production loan will be given in cases where agricultural yields require great financial investments that cannot be met by the individual peasant, where peasants do not cultivate secondary products that are exchangeable for currency, or where flood or drought has caused low yields. A transport and sale loan will be granted in cases where the peasants own exchangeable secondary products and are able to make lot purchases, or where they have marketing outlets but no

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operating capital. A tide-over loan will be granted in cases where peasants must repair buildings, purchase clothing, and feed large families, or where currency on hand cannot meet the expenses caused by death, illness, marriage, or educational needs.

B. Savings

The policy of the state bank is to maintain harvest surpluses for winter reserves or famine relief. State banks will work with agricultural cooperatives toward maintaining substantial monetary reserves and will begin to act independently in opening savings accounts. In the last 3 years, state banks have initiated plans called "deposits recorded in simple grain equivalents" because the peasant feared the devaluation of currency. When national commodity prices became more stable, peasant apprehension was allayed, and plans called "guaranteed valuation" were introduced. When prices and currency had been completely stabilized (July 1952), these plans were abandoned and regular monetary savings was introduced.

II. CLASSIFICATION OF RURAL LOANS

After May 1951, rural loans activity was given a high priority in national financial planning. In 1951, when production-increase plans called for 200 billion catties of grain and 5 million piculs of cotton, loans were given primarily for rural water conservation projects, seeds, and animal husbandry. Loans for rural water conservation projects (field irrigation) were used primarily for the development of small-scale projects. Loans for grain seed were granted primarily to purchasing agencies which were to distribute to the peasants a high grade of seed. The purchasing agencies selected "loan regions" so that state banks could more effectively grant loans directly to the needy peasants. Animal husbandry loans were granted for draft and stud cattle and to promote cattle hygiene. Peasants were urged to use loan money to buy draft animals. Stud cattle were bought for state-operated breeding stations where peasants may purchase better strains.

Loans are granted in spring and autumn or as "constant loans." Production loans are floated for not more than one year and tide-over loans for 2 or 3 months.

A. Production Loans

Production loans are to assist peasants meet the purchase price of farm tools. However, the primary purpose of these loans is to urge peasants to comply with state agricultural plans and to raise production on priority raw materials needed for China's industries -- cotton, leaf tobacco, and hemp. Such loans permit peasants to meet state agricultural production demands which require small-scale irrigation projects.

At present, emphasis is on the acquisition of more and better farm tools for the improvement of production technique, rather than on loans to alleviate financial stress. Peasants are led to participate regularly in mutual-aid teams, in agricultural production cooperatives, and in collectives. The loan period is from one to 3 years. Secondary emphasis is on rural loans to peasants unable to buy seed, fertilizer, farm tools, and water lifts, that is, peasants who have practically no savings.

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B. Transport and Sale Loans

These loans are floated to expand and strengthen the state-operated trading system and the network of supply-and-marketing cooperatives. Secondary products loans are occasionally granted to small rural traders. All such loans are designed to facilitate the rapid and unimpeded flow of secondary products to market.

In 1951 and 1952, various rural regions conducted Local Products Exchange and Urban-Rural Commodities Exchange conferences which gradually led to state control over the private capitalist and individual producer economy. State banks promoted urban-rural commodities exchange and strengthened urban-rural liaison. Loans were granted on a regular schedule. The loans (1) integrate state banks with state-operated trading and supply-and-marketing cooperatives, systemize and regulate the marketing of agricultural products, and support state production plans; (2) stimulate the flow of secondary products from private commercial enterprises when granted directly to these production or transportation enterprises and force them to follow state regulations on market competition; and (3) enhance the exchange of products between urban and rural areas by floating loans to wholesale and retail trading enterprises.

C. Tide-Over Loans

Although these loans are granted to peasants so that financial debts incurred as a result of family crises can be met, they must not be considered relief loans. There are relief organizations specifically set up to assist peasants during severe natural crisis.

All loans are designed to stimulate currency circulation in rural areas and secondary industries in the countryside are given a great impetus toward reactivation. These loans are effective in that:

1. When higher echelons send down general production plans, each hsien must work out the details in accordance with local conditions and return the plan to the higher echelons for approval.
2. They solve the everyday financial problems of the peasants. The loan period is comparatively short but needs are promptly met.
3. They are the regular method of establishing financial liaison between the state-operated economy and the peasants. The state banks must transact these loans daily on their own initiative and through their own rural organizations.

All loans comply with the principle of expediency. In regions where land reform has already been thoroughly implemented and where harvests have been good for a number of years, the financial requirements of agricultural production loans for small farming tools, seed, and fertilizer can be met by the peasants themselves. Long-term loans on horse-drawn farm equipment and water lifts are negotiated directly with the state banks, especially if the equipment is very expensive. Loans for small-type farm equipment, irrigation lifts and drainage ditches, fertilizer, and seed (which would be classified as production loans) are designated tide-over loans because these comparatively advanced rural areas have currency appropriations sufficient to meet small needs.

In addition to the transport and sale loan, there are two rural loan categories. One is the loan through state banks and their subsidiaries which disburse funds for long loan periods. Planning is very detailed and

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the emphasis is on the collective use of funds. The other is the loan for agricultural production and peasant family needs. These include the tide-over loan and loans to city industrial and commercial enterprises and to handicraft industries.

III. NEGOTIATING RURAL LOANS

At present, loans are granted (1) directly to the peasants and (2) to public and private agricultural enterprises, cooperatives, and state farms.

A. Peasant Loans

Since these loans are made directly to the individual peasant, government supervision is close and the procedure for disbursement is cumbersome. The procedure for negotiating these loans is as follows:

1. Preliminary Study

Policy deviation is circumvented by conducting thorough preliminary investigations and study. Much time and energy is used in explaining that the policy of peasant loans is not one of social relief, but an integral part of the new agricultural production policy. It supports only those peasants actively engaged in production and solves the financial problems they incur during the course of this production, but does not approach the arena of peasant relief.

When a peasant loan is granted, a point of concentration is selected. Loan coverage for the entire countryside is currently unfeasible and the point of concentration is a necessary stopgap because of the limited financial reserve of state banks. Financial reserves are low and for a long period of time will be unable to meet agricultural demands. The point can refer to a village where the harvest has been poor and the need for loans urgent. Priorities are promptly determined and the funds disbursed. For example, if a certain village considers that the repair of irrigation ditches is a top-priority need, such repair will be the point of concentration -- more specific than merely designating the village. In other cases, poor peasants who have no production funds will be designated points of concentration.

A detailed plan and a policy outline are drawn up. All cadres are subjected to an intensive study of and indoctrination in policy matters. Account books and calculation charts are made ready. If the loan is to be given in kind, the grain or the cattle should be thoroughly inspected before it is transferred to the peasants.

Disbursement of the loans must be carried out with the assistance of state cadres. Since banks in the countryside currently have no more than two or three loan-cadres per branch or subbranch; it would be very difficult to disburse funds without the help of the state cadres. It is imperative, however, that loan-cadres from the banks comprise the backbone of this activity. Currently, the funds are given either to the peasants directly (through the loan-cadres) or to village cadres or cooperative personnel, leaving the loan-cadres responsible for investigations and clarification of terms.

2. Determination of Borrower

The following questions must be asked and the answers used as a guide in determining the borrowers.

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a. Who shall be granted a loan?

At present, poor and middle peasants in China's agricultural areas will be the major recipients of state loans.

b. How shall the borrower be determined?

Village cadres are now chosen (from among peasants who are production activists) and indoctrinated in loan policy principles. They are then asked to select, from peasants in their village, borrowers to be presented on a preliminary list. A peasant conference is then convened (or coordinated with other local conferences in session) and the significance of peasant loans is explained and the persons eligible, the method of disbursement, the rate of interest, and the due date are announced. At the conference, borrowers are selected from the villagers and a new list is drawn up. If the new list corresponds, name for name, with the preliminary list, the eligibles are confirmed as the recipients. If the lists do not correspond, the preliminary list can be discarded or, if the explanations had not been made sufficiently clear during the conference sessions, another series of explanations is made and a new list prepared.

Another way of determining the borrower is to choose from eligibles who have given personal reports before village assemblies. At present, few areas can follow such a method of determination and must rely entirely on the investigations conducted by state banks. Lack of funds is usually the complicating factor. For example, in 1949, Lao-chuang Ts'un, Chi Hsien, some 21,000 yuan were appropriated for peasant loans. There were 80 farms represented in the village. After their personal reports had been given, more than 50 peasants submitted requests for loans. However, only 30 peasants could be given loans and those who were refused were rightly chagrined. But even the funds disbursed were inadequate and the borrowers grumbled constantly. Rural discontent must be avoided. When funds appropriated for loans are actually insufficient to meet the demand, when personal reports become too numerous; that is, when loan applications are excessive, the personal report method should be avoided.

c. How can mutual-aid and other teams orient peasant attitudes?

Cooperation and collectivization will be improved if priority for loans is granted those peasants who join agricultural organizations. The advantages of state assistance should be pointed out, but rash methods should not be used to organize peasants. Voluntary action is preferred. State banks give priority to those mutual-aid teams which show high production activity. Individual peasants should be shown the advantages of organizing so that their attitudes may incline toward cooperation and collectivization.

3. Disbursement

Loans are granted with the state banks as the creditor or with the cooperative as the negotiating agent and responsible party. When the bank is the creditor, a borrower cell is organized and the duty of members is explained as follows: (1) to assemble promptly for signing loan contracts, (2) to pledge that loans will be used for agricultural production, and (3) to notify fellow members of due date and to act as guarantor for members who cannot repay on the date set.

Unfortunately, state banks currently cannot handle loans in more than 200,000 villages. In many regions, cooperatives have been delegated the authority to negotiate loans.

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There are many ways to disburse funds through cooperatives. Shantung's procedures are exemplary:

a. Transfer Loan

In disbursing the funds for a transfer loan, the state bank branch or subbranch appropriates the sum and transfers it to the cooperative. The cooperative negotiates loans with individual peasants. Since the cooperative is the negotiating agent it must guarantee the use in production and the eventual repayment of the money. The branch or subbranch assists the cooperative in the calculation of premium and interest rates. The cooperative must pay monthly interest to the bank.

b. Loan With Temporary Agent

This means that the state bank grants the loan directly to the peasant petitioners. It is negotiated in this way in cases where the cooperative is newly established and, consequently, inexperienced in financial matters. The bank regularly informs the cooperative on loan policies, but retains the promissory note. The cooperative can begin to negotiate loans after the state bank and the rural state cadres are satisfied that the procedure has been learned.

c. Loan to Integrate Supply and Marketing

There are two ways of granting this loan:

- (1) The loan may be made to the cooperative which uses the money to purchase production equipment or planting materials for the peasants.
- (2) The cooperative may first purchase the equipment and materials and, under the supervision of the bank, lend them to the peasants.

It is still difficult to choose cooperatives to negotiate this type of loan. Cooperatives are not familiar with banking procedures. Loan transfers are not really what the state prefers in loan negotiations. As state bank organizations expand, cooperatives will handle fewer loans and the banks will more and more assume direct control over the process and the promissory notes.

4. Investigation

Top-level and basic-level bank organizations will effect investigations to ensure that points of concentration are intelligently selected, that propaganda concerning the state's policy on rural loans is thoroughly disseminated, and that regular banking procedures are carefully followed.

5. Redemption

All loans will be collected on due date, but exceptions will be made in cases of emergency. At present, loans are redeemed in the following ways:

a. Redemption activity must be constant. Monolithic leadership, scheduled disbursement of funds, and extensive propaganda will facilitate redemption of loans due.

b. If peasants are unable to meet the due date, loan-cadres from branches and subbranches of the state banks will urge repayment. If the peasant is found to have currency on hand, repayment will be made immediately.

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If his monetary reserve is depleted, a new due date will be set. Occasionally accommodations may be made to correspond to the financial condition of the borrower. Supply-and-marketing cooperatives will take repayment in kind.

B. Loans to Public and Private Enterprises, Cooperative Organizations, and State Farms

Few private enterprises remain in rural China. Hereinafter, the term private enterprises will refer to middle and small trading establishments and handicraft workshops.

1. Petition

All petitions must be drawn up in written form. A production plan and a finance outline must be appended: the plan must reveal the stage of production; and the outline, budgetary estimates. In addition, the plan must give the name, type, number of workers, and operational procedure of the petitioning organization; the outline must show total capital on hand and invested. All agricultural cooperatives will submit a breakdown on the allotment of loan money to various tasks and will append estimates on production yields. The request for funds will be submitted only after such plans and outlines have been received by the bank.

If irrigation is to be promoted on a large scale, the water conservancy organization must draw up a project plan, an outline of the stages through which work will proceed, a project time schedule, and a finance outline showing estimates of labor costs and wage-rates. Small-scale projects require fewer details.

2. Investigation and Audit

Loan-cadres from the state banks investigate the financial status of all petitioners. An audit is made to determine the financial accuracy of the petition and the congruity between the production plan and objective local conditions. It is imperative that the plan be in accord with the national policy of cooperation and collectivization. The cadres will promptly report the audit results to the bank which, in turn, will make the decision to grant or refuse the loan. The decision will be set down on a memorandum and in the event that the petition is refused, the memorandum will be appended to the plan and promptly returned to the petitioner.

3. Disbursement

When a loan has been authorized, the bank will make out a notification and append to it a blank loan certificate (for loans to large-scale water conservation projects, a contract will be appended for signature). The petitioner will be asked to fill out and endorse the loan certificate and produce a guarantor. The guarantor must affix his seal to the certificate and return it to the bank. Upon receipt of the certificate (or contract), the bank will investigate the background of the guarantor, and, if everything is in order, the loan will be granted.

The loan may be drawn upon the bank, but the procedure must comply with the agreement proposed in the loan certificate or contract. The money may be disbursed in a lump sum or in small payments. If the money is to be transferred to a third party, the Monetary Control Law must be complied with. That is, the borrower will sign with the bank for the money and the bank will transfer the cash to the peasant petitioner rather than to the third party (usually an agricultural cooperative). The bank will hold the promissory note.

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4. Inspection

The banks will delegate inspectors to check on whether or not loan funds are being used in compliance with the production plan, finance outline, and the agreements proposed in the loan certificate or contract. Inspection is imperative because most loans currently granted in rural China are in cash. Production must be enhanced and capital preserved.

When the bank receives the inspection report, the case under study is adjudicated on the basis of precedent, and a report is drafted giving the inspector's opinions; a copy is made, and the original sent to a highlevel bank. Should it be decided that the loan funds were misused, the bank may either discontinue the loan or raise the interest charge.

5. Repayment and Renewal

One month before due date, the bank will notify the borrower that the principal and interest are due. When the borrower has cleared his account, the bank will so signify in writing (across his loan certificate). If the loan is repayable on a schedule basis, then before the last payments, the bank will issue payment receipts for each payment and write "schedule payment" on the loan certificate. When the principal and the interest have been cleared, the borrower will turn in his payment receipts and receive his original loan certificate in return.

If the due date has been exceeded, the borrower will be so informed in writing by the bank, which will also demand payment and affix additional interest.

If the borrower is unable to meet the due date, he must inform the bank in advance, state the reason, and request renewal. The additional interest (or interest fine) will be charged in all cases where renewal requests have not been submitted.

Upon receipt of the renewal request, the bank will investigate and, on the basis of the use to which the funds are being put, the source of repayment money, the agricultural season, and specific hardship, will decide to grant or refuse the renewal. The borrower and the guarantor will be informed of the decision.

Loan renewal will be handled in four different ways:

a. Collection of Interest and Renewal of Principal

The interest on the loan will be paid in full and another loan certificate will be issued to renew the original principal.

b. Renewal of Principal and Interest

Should the borrower be unable to meet the due date, the accrued interest will be attached to the principal (making the new principal) and a new loan certificate issued.

c. Renewal in Part

Should the borrower be unable to meet the due date, a fraction of the total principal and interest will be acceptable and the unpaid balance applied to the new loan certificate.

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d. Renewal of Original Loan Certificate

If natural crisis have so devastated an area that all or most of the loans granted cannot be paid up, the bank will send inspectors. The local government will proclaim the territory an emergency area and the bank will not press claims, but will issue new loan certificates.

With the exception of regional variations, the above-mentioned procedure for granting and renewing loans are, as of March 1953, operative in China. The following outline shows the steps:

A. Petition for Loan

1. Fill out loan petition
2. Append production plan and finance outline (or project plan)
3. Dispatch investigator and receive report

B. Consider Loan

1. Approve loan
2. Refuse loan

C. Write Loan Certificate (or Sign Contract)

D. Produce Guarantor

E. Issue Loan

1. Disburse in lump sum
2. Disburse in small payments

F. Supervise Disbursement

1. Employ cooperative as agent
2. Disburse directly to peasants

G. Inspect Loan Use (Consult Inspection Report)

H. Notify on Due Date

I. Redeem Loan (use one of the following)

1. By allotment (use payment receipts)
2. Write "paid" on loan certificate and return duplicate
3. Write overdue notification when needed

J. Request Renewal (use one of the following)

1. Collect interest and renew principal
2. Renew principal and interest
3. Renew in part
4. Renew original Loan Certificate

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IV. CLASSIFICATION OF RURAL SAVINGS

A. Significance of Rural Savings

Capital reserves in the countryside will spur agricultural production and tide over needy peasants. Peasants are daily becoming more prosperous. According to statistics from Shansi, the per capita purchasing power of peasants in the province was 43.69 catties of millet in 1949, 157 catties in 1950, and 275 catties in 1951. The Hunan Provincial Commerce Office estimates show the per capita purchasing power of peasants was 168,550 yuan in 1950, 199,400 yuan for 1951, and 230,000 yuan for 1952. In Ch-kiang, the per capita purchasing power of the peasants was 97 catties of rice in 1949, 150 catties in 1950, and 250 catties in 1951.

On 7 June 1951, the Peiping Jen-min Jih-pao stated editorially: "Although peasant prosperity has facilitated the exchange of local products, at present there are a great number of poor peasants unable to save up grain surpluses. This means that national savings and insurance operations must be effected.

"Between March and April 1951, more than 200 rural currency cells in Chahar accumulated more than 4,500,000,000 yuan in deposits, thus exceeding by 80 percent the 2,500,000,000 yuan in private, individual deposits for 1950. By February 1951, the branch bank in South Szechwan exceeded by 183 percent the total deposits recorded for the first quarter of 1950. The Jen-shou Subbranch Bank, South Szechwan announced that 98 percent of all private deposits were in the name of peasants. In four Hopeh villages, each person held an average of 258 catties of surplus rice.

"If savings operations are not speeded, this surplus money will tend to accumulate in the hands of these peasants and will not be made available for the nation's cooperative production programs."

The purpose of rural savings is (1) to expand reproduction, (2) to make capital available for reproduction by preventing capital from accumulating in the hands of individual peasants (by means of savings activity rather than coercion or confiscation), and (3) to regulate the flow of currency between the city and countryside.

The following statement was made by the president of the South Branch, People's Bank:

"The development of China's agriculture is uneven and, for some time into the future, will become more uneven. When the peasants harvest a crop, they have on hand salable commodities which are additional to what was set aside for food and taxes. When these commodities are sold, peasants have exchange value with which to buy industrial goods. The state must support trading. But people's currency is accumulated by peasants in proportion to the volume of agricultural products sold; and since industrial goods are still scarce there are many consumer products which are unavailable to the peasants. Thus, large amounts of rural surplus currency flow to the city markets, bids for industrial goods are numerous, and prices of consumer products rise.

"If state banks fail to initiate operations in the countryside during this extended period of agriculture-industry imbalance, the following results will occur: (1) there will be a money scarcity in trading, agricultural products will not be purchased, and the rural economy will be given no support and (2) after trading, there will be a rise in the price of

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industrial goods and a failure to supply peasants with some consumer products. To prevent this from causing peasant discontent, we must consign some of the peasants' surplus capital to state banks to be held in the form of savings."

B. Types of Savings Accounts

At the First National Rural Finance Conference it was decided that cadres would be sent to the countryside to integrate rural loan and insurance organizations, cooperatives, and trading cells with the hsien subbranch banks. Despite the fact that natural crisis and uneven production development often involve state banks in huge losses, the banks must continue to promote savings activity among the peasants.

At present, there are the following four types of rural savings accounts:

1. Current Account

Since a Deposit Book is required, this account is commonly called a Deposit Book Savings Account. The book must be shown upon deposit or withdrawal of money. Interest is calculated on the basis of current deposit interest levels in nearby cities and, like the Fixed Account, the lowest rate is chosen. Withdrawal is not so easily executed as in the case of the Fixed Account because withdrawal can be made only on the bank which opened the account. Unlike the Deposit Voucher of the Fixed Account, the Deposit Book cannot be used hsien-wide. Therefore, it is usually more convenient for the depositor to bank at the branch nearest his dwelling.

2. Fixed Money Account

A Deposit Voucher is used. This type of account is useful because (1) withdrawal or deposit can be made at any time within the period of one year after opening the account, (2) any bank in the hsien can be drawn upon (depositor's name is not required on the voucher), and (3) interest is high and, 7 days after initial deposit is taken, increases daily. This account is convenient for peasants because of its simplicity. But the banks find it difficult to keep records of the initial deposit since deposits and withdrawals are being made constantly and with any bank.

3. Fixed Term Account

Since the purchase of production equipment and materials is at the highest levels prior to the planting, and immediately after the harvest season, and since the peasants have a better understanding of savings operations, this type of account is becoming more popular. Also, it is easier for the banks to keep records on the initial deposit when payments are scheduled and the same bank is visited.

4. Combination Deposit-Loan Account

This savings method is now being promoted in rural areas for the first time. If a peasant wants to purchase new farm tools, he makes his plans 6 months in advance. The price, say approximately 700,000 yuan, is met by monthly deposits of 10,000 yuan. After 6 months, since he is still 10,000 yuan short of the required cash, he can petition for a 10,000-yuan loan. His account has been called a production and livelihood account. It permits the peasants to purchase tools with their own capital reserves.

The Deposit-Loan Account is operative only after the rural production cooperative or the mutual-aid team has signed a deposit-loan agreement or a three-corner agreement. These two agreements require that mutual-aid

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teams or production cooperatives with capital reserves open savings accounts with state banks. In time of need, either the banks will float peasant loans or the supply and marketing cooperatives will meet peasant needs. The signing of a three-corner agreement (1) ensures that materials will be available for production and everyday needs and gradually brings the dispersed small peasant economy under the control of the state-operated economy; and (2) strengthens the financial liaison between the peasant, the cooperative, the mutual-aid team, and the state bank. Since the banks are required to investigate the production plan and finance outline, they are in a position to know the amount of harvest yields, quantity of supplies and grain surpluses on hand, and the amount of capital deposited by each of the rural cooperative organizations. This improves financial control in the countryside.

V. CLASSIFICATION OF RURAL INSURANCE PLANS

A. State Policy

Rural insurance is designed to assist peasants in preventive, i. e. antidrought, antiepidemic, and antiflood work and to guarantee harvest yields and insure cattle. The results have been favorable since 1949. For example, in the relatively new Central-South Administrative Area, by July 1952, 5,140,000 head of draft cattle were insured. In Kiangsi during 1952, one percent of all insured cattle died, but all owners were indemnified. Since spring 1952, 3 percent of insured cattle in Kwangtung died and again all owners were indemnified.

B. Types of Rural Insurance

There are currently four kinds of coverage plans in rural insurance. These are as follows:

1. Cash Crop

This plan is being used to insure cotton, tobacco, ramie, hemp, sugar cane, medicinal herbs, rubber, and other special crops; wheat, paddy rice, soybeans, corn, kaoliang, fruit orchards, and vegetable gardens.

2. Domestic Animals

This plan covers cattle, horses, mules, donkeys, camels, sheep, and pigs.

3. Capital Goods

This plan is being used to insure State farm buildings against fire and transportation equipment against damage and loss.

4. Domestic Fowl, Silkworm, and Fishing Enterprises

Under this type, only domestic animals and cotton crop insurance is operative. The other types are in the planning stage.

a. Domestic Animals

This insurance is necessary because peasants cannot replace farm animals lost or incapacitated by accident. They are vital for production. Preventive measures -- such as expense-free immunization injections -- and improvement of strains are now regular veterinarian responsibilities in those regions where the People's Insurance Agency operates.

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(1) Requirements

Insurance will be written in those cases where the animals are properly fed and cared for, are healthy, are not disease ridden or injured in any way, and are regularly used for draft work in agricultural production. The color, height, weight, age, and sex of the animal is recorded with the Insurance Agency. An insurance company, organized from peasants in the villages, will, after consultation with the local administration chief and the Peasant Association, estimate the worth of the animal, determine the corresponding premium rate, and draw up the insurance policy.

(2) Age

Insurance will be written for cattle from 2 to 15 years of age, horses from 3 to 18, mules from 2 to 20, and donkeys from 2 to 12.

(3) Insurance Liability

The Insurance Agency must indemnify policyholders whose animals have to be slaughtered legally because of incapacitation resulting from illness, labor in birth, castration, lightning, fire, leg injury, and drowning or any unintentional mishap resulting in death. The agency will not be responsible for loss of animals who have strayed, or have been stolen, or who have been lost during warfare, or through intentional slaughter.

(4) Insurance Premium Rate

Rates vary according to the region. Generally, draft and breeding cattle are insured at rates of 3-4 percent of the valuation set, draft horses at 5 percent, draft and breeding donkeys and draft mules at 4-5 percent, and camels at 7 percent.

(5) Term

This is set at one year, but the owner may extend or shorten this period according to local conditions.

(6) Indemnity Procedure

A report to the local Insurance Agency must be made within 24 hours of loss. When the agency has investigated and confirmed the facts in the report, petition can be made for the indemnity. Indemnity payments can be reduced by the agency to the amount of what hide, meat, bones, etc., are worth on the market.

b. Cotton Crop

This plan is an important spur to produce according to state agricultural plans. It was initiated in 1950 to promote China's cotton production program.

(1) Requirements

Insurance will be written for those state farms, cooperative farms, privately operated farms, and smaller independent peasant cotton producers. All fields of the insured under cultivation must be inspected by the local Insurance Agency and registered with the village insurance company. The yield is estimated after a democratic discussion and the maximum amount of coverage granted will be 70 percent of this estimate. The insurance policy will be drawn up and signed only after the cotton shoots have appeared.

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(2) Liability

The agency must indemnify policy holders whose cotton crops were ruined by windstorms, floods, drought, spoilation from excessive humidity, frosts, and fire or insect blight. If the crop has been ruined by warfare, theft, or from having been trampled or eaten by other peasants' cattle, or through the use of improper plowing methods, failure to replant cotton sprouts ruined by unfavorable weather conditions, or failure to take precautionary measures before and after planting, the agency will not be responsible or held liable. These propositions are more stringent than those in animals insurance policies because cotton is vital to China's economy and its connection with industrial production programs is close.

(3) Premium Rate

At the least, rates are set at 5 percent of the estimated yield and must be paid in people's currency.

(4) Term

This includes the time from the sprouting of the shoots to cotton harvest; the exact termination date depends on the rate of cotton growth.

(5) Indemnity Procedure

The policyholder must inform the Insurance Agency through the village insurance company. When the agency has investigated and confirmed the accuracy of the claim (which is then sent to and reviewed by the Committee for the Promotion of Cotton Insurance), the petition can be filed for indemnity. Indemnity is figured on the basis of labor, fertilizer, and equipment costs.

(a) Yield Estimates and Premium Determinations

If the estimate of the anticipated harvest is too high, the nation will lose money; if it is too low, the peasants will not be justly insured. Therefore the procedure for yield estimates and premium determinations is more flexible than the one used in determining the regular State harvest tax. In the latter, the tax charge is fixed, there are no adjustments in the charge thereafter, and the tax is collected despite the volume of yield.

Estimates for cotton insurance charges, however, take into account the soil conditions, type of cotton planted, and the methods of cultivation. The premium rate is determined by extrapolation of average yield totals of the preceding 3-5 years. If estimates were to be made in the manner of the state harvest taxation procedure, peasants who used better cultivation methods would not take out such insurance. Those who used poorer methods would be losing the Insurance Agency's money. Thus, it is imperative that estimates and determinations be flexible.

The entire insurance operation is designed to improve mutual aid among the peasants. Insurance cadres will be held responsible for eliciting cooperation in labor and a greater centralization of the rural cells.

A reestimate of the yield anticipated will be made when the shoots first appear. In the event that all seed do not come up, the original estimate must be adjusted downward. The cotton insurance policy may then be drawn up and signed.

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(b) Precautions

The responsibility for flood and drought control operations lies with the agricultural organizations. The Insurance Agency functions solely as coordinator.

(c) Insurance on Quantity of Yield

The quantity, not the quality, of the cotton yield will be the sole basis for insurance. Poor cultivation methods and adverse crop conditions reduce boll quality, but total yield quantity is not affected. Although insurance policies which take qualitative changes of the boll into account are being considered, they are not yet being written.

(d) Method and Significance of Incentive Awards

To integrate cotton farmers, who become model producers and activists, with the nation's Patriotic Production Increase Movement, and to spur them on to new production records, the Insurance Agency has devised the following incentives: (1) each cotton farmer whose yield is 60 percent above the average yield recorded in his village and (2) each farmer whose yield is 60 percent above the next highest yield will, in either case, receive a reduction of 60 percent in his annual insurance premium.

VI. CLASSIFICATION OF RURAL CREDIT COOPERATIVES

A. Loans From Independent Farmers

Soon after land reform had been completed in a rural area, independent peasant farmers who had money and were in a position to lend to the less fortunate preferred not to do so because they feared that the loan would never be repaid and that they would be exposed as rich peasants. Rural credit cooperatives were quickly expanded to alleviate the situation.

B. Development of Rural Credit Cooperatives

The cooperatives are similar to those established in 1942 in the Shensi-Kansu-Ningsia Border Region. By March 1953, the number of credit cooperative organizations reached a total of 8,000-odd units. Of these, 1,776 are credit cooperatives, 5,239 are credit mutual-aid teams, and 1,126 are credit supply-and-marketing cooperatives.

In 1950, Shansi had 232 credit cooperative organizations: 20 were credit cooperatives, 96 were credit bureaus, 111 were credit supply-and-marketing cooperatives, and 5 were credit cells. The 20 credit cooperatives employed 15,108 persons, had a total investment (in rice) of 570,000 catties, 126,690,000 yuan (in cash) on hand, 109 million yuan in deposits, 1,220,000 catties in commodity deposits, 235 million yuan in outstanding loans, and 1,790,000 catties in outstanding commodity loans.

By November 1951, the number of credit cooperatives had increased to 22, credit bureaus and credit supply-and-marketing cooperatives to 571, and credit cells to 144; in all, 987 credit cooperative organizations. These covered 8 percent of all administrative villages in Shansi. By the end of May 1952, there were 629 credit cooperatives in the province and 177 credit cells.

Between July 1951 and June 1952, 530 credit cooperatives and 2,000-odd credit cells were established in the Central-South Administrative Area.

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RESTRICTEDC. Function of Rural Credit Cooperative Organizations

In 1951, the Hu-kuan Pai-ch'ih and the Huang-shan Credit Cooperatives of Shansi supported peasant purchases of 428 draft animals, 178 sheep, 200,000 catties of fertilizer, and 2,000-odd pieces of farming equipment. The Huang-shan Cooperative floated loans to help 342 sick peasants and to tide over another 15 who had incurred debts because of marriage or death in the family.

D. Types of Rural Credit Cooperative Organizations

The three major types of rural credit cooperative organizations are:

1. Credit Mutual-Aid Cell

The credit cell is really the most common form. There are usually one, or not more than two or three, in an administrative village. They are established under a mutual-aid charter and directed by a cell chief and his deputy. The charter stipulates that:

a. Mutual-aid cell members will be assiduous in production, frugal in living habits, and helpful in supervising fellow members (as fellow members supervise them).

b. Members will elect a chief and his deputy who will be responsive to the decisions of the cell conference.

c. The chief and his deputy will have charge of cell funds and keep the accounts.

d. Accounts will be open to scrutiny by all.

e. Loan and savings programs will be directed toward serving members, although non-cell peasants will be permitted to make savings deposits.

f. The cell will be strict with loans (there will be no payments in arrears or repudiation of debts incurred, surplus capital or grain will be divided equally, and deficits will be borne equally by members).

g. Cell members may request loans at assembly sessions and approval or refusal will be decided promptly by vote.

h. All loans and deposits will be recorded on certificates and in deposit books.

i. Interest rates will be set by the subbranch of the People's Bank.

j. Monthly meetings will be held to inspect accounts. Should any cell member act contrary to the terms of the charter, he will be publicly criticized or, in serious cases, expelled.

2. Credit Bureau

The bureau is established as an auxiliary to the supply-and-marketing cooperative. Funds are controlled by the cooperative. The bureau assists the parent organization in the transaction of loans and the handling of savings accounts.

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3. Credit Cooperative.

The credit cooperative operates as a support organization for the state bank. It covers an administrative village and its immediate environs. The credit cooperative must:

a. Follow and comply with all directives from the state bank in the course of:

- (1) Collecting members' cash or grain for savings deposits.
- (2) Lending cash or grain to members for production or tide-over needs.
- (3) Lending cash or grain, with state bank approval, to non-members.
- (4) Acting as general financial agent for the state bank.

b. Integrate operations with the state bank and the state-operated trading organizations.

c. Accept petitions for enrollment in the cooperative. All males and females 16 years of age may apply for membership. Enrollment fees and initial investments must be collected from each new candidate. In event of a member's withdrawing from the cooperative, his investments but not his enrollment fee will be refunded.

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